

SPEARVILLE HOSPITAL DISTRICT

**FINANCIAL STATEMENTS
and
REQUIRED SUPPLEMENTARY INFORMATION
with
INDEPENDENT AUDITOR'S REPORT
YEARS ENDED DECEMBER 31, 2016 AND 2015**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Spearville Hospital District
Spearville, Kansas

We have audited the accompanying financial statements of the business-type activities of the Spearville Hospital District as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Spearville Hospital District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Spearville Hospital District as of December 31, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America also require that the comparison of revenues and expenses (cash basis) and the budgetary comparison statement – budget to GAAP reconciliation information on pages 10 and 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Kennedy McKee & Company LLP

May 30, 2017

SPEARVILLE HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

	December 31,	
	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 156,692	\$ 136,547
Certificates of deposit	53,137	28,038
Property taxes receivable	149,758	148,601
Other receivables	3,756	3,545
Inventory	3,862	3,046
Prepaid expenses	5,469	5,573
Total current assets	372,674	325,350
Noncurrent assets:		
Capital assets:		
Property, plant and equipment, net	335,688	376,120
Total assets	\$ 708,362	\$ 701,470
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current liabilities:		
Accounts payable	\$ 20,658	\$ 22,290
Accrued expenses	6,076	5,433
Total current liabilities	26,734	27,723
Deferred inflows of resources	210,750	207,924
NET POSITION		
Net investment in capital assets	335,688	376,120
Unrestricted	135,190	89,703
Total net position	470,878	465,823
Total liabilities, deferred inflows of resources, and net position	\$ 708,362	\$ 701,470

The accompanying notes are an integral part of the financial statements.

SPEARVILLE HOSPITAL DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year ended December 31,	
	2016	2015
Operating revenues:		
Net resident service revenue	\$ 114,085	\$ 95,882
Clinic revenues	6,676	7,181
Friendship meals	46,610	35,325
Miscellaneous	980	1,087
Total operating revenues	<u>168,351</u>	<u>139,475</u>
Operating expenses:		
Payroll	111,229	109,518
Payroll taxes	8,702	9,616
Employee health insurance	12,396	12,700
Repairs and maintenance	17,275	17,767
Clinic expenses	50,301	58,921
Friendship meals expense	34,529	34,549
Utilities	44,686	41,807
Insurance	19,602	19,823
Office supplies and expenses	2,206	3,988
Professional services	20,948	7,686
Depreciation	56,658	56,789
Miscellaneous expense	3,636	3,197
Total operating expenses	<u>382,168</u>	<u>376,361</u>
Operating income (loss)	<u>(213,817)</u>	<u>(236,886)</u>
Nonoperating revenues (expenses):		
Property taxes	218,611	213,822
Interest income	261	275
Noncapital grants and gifts	-	10,906
Gain (loss) on disposal of assets	-	948
Total nonoperating revenue	<u>218,872</u>	<u>225,951</u>
Change in net position	5,055	(10,935)
Net position, beginning of year	<u>465,823</u>	<u>476,758</u>
Net position, end of year	<u>\$ 470,878</u>	<u>\$ 465,823</u>

The accompanying notes are an integral part of the financial statements.

SPEARVILLE HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2016	2015
Cash flows from operating activities:		
Receipts from and on behalf of residents and patients	\$ 120,550	\$ 99,859
Receipts from meals	46,610	35,325
Payments to suppliers and contractors	(207,923)	(190,779)
Payments to employees	(119,288)	(120,362)
Other receipts, net	980	1,087
Net cash provided (used) by operating activities	<u>(159,071)</u>	<u>(174,870)</u>
Cash flows from noncapital financing activities:		
Property taxes supporting operations	220,280	273,145
Noncapital grants and gifts	-	10,906
Net cash provided (used) by noncapital financing activities	<u>220,280</u>	<u>284,051</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of capital assets	-	2,261
Purchase of capital assets	<u>(16,226)</u>	<u>(54,917)</u>
Net cash provided (used) by capital and related financing activities	<u>(16,226)</u>	<u>(52,656)</u>
Cash flows from investing activities:		
Interest income	261	275
Net change in certificates of deposit	<u>(25,099)</u>	<u>(98)</u>
Net cash provided (used) by investing activities	<u>(24,838)</u>	<u>177</u>
Net increase (decrease) in cash and cash equivalents	20,145	56,702
Cash and cash equivalents, January 1	<u>136,547</u>	<u>79,845</u>
Cash and cash equivalents, December 31	<u><u>\$ 156,692</u></u>	<u><u>\$ 136,547</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating loss	\$ (213,817)	\$ (236,886)
Depreciation	56,658	56,789
Changes in operating assets and liabilities:		
Other receivables	(211)	(3,204)
Inventory	(816)	547
Prepaid expenses	104	6,598
Accounts payable	(1,632)	2,514
Accrued expenses	643	(1,228)
Net cash used in operating activities	<u><u>\$ (159,071)</u></u>	<u><u>\$ (174,870)</u></u>

The accompanying notes are an integral part of the financial statements.

SPEARVILLE HOSPITAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016 and 2015

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Nature of operations

The Spearville Hospital District (the District) is operated by a Board of Directors elected by the qualified voters of the District. The District was organized to provide not-for-profit services for the benefit of the residents in and around Ford County. The District primarily earns revenue by providing self-care apartments and senior meals. Additionally, basic medical services are provided at the District's clinic through a contract with the Hodgeman County Health Center.

2. Basis of accounting

The financial statements of the District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows/outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Property taxes and investment income are included in nonoperating revenues and expenses.

3. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and deferred inflows/outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash equivalents

The District considers all liquid investments with original maturities of three months or less to be cash equivalents.

5. Property taxes

The District received approximately 56% and 59% of its financial support from property taxes in 2016 and 2015, respectively. One hundred percent of these funds were used to support operations.

Property taxes are assessed in November and are received beginning in January of the following year. Revenue from property taxes is recognized in full in the year following the year the taxes were levied, which is the year in which use is first permitted.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. Risk management

The District is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

7. Receivables

All receivables are reported net of estimated uncollectible amounts.

8. Inventory

Inventory is stated at the lower of cost, determined using the first-in, first-out method, or market.

9. Capital assets

Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Land improvements	10 - 15 years
Buildings	5 - 40 years
Major moveable equipment	5 - 20 years

10. Compensated absences

The District's policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

11. Deferred inflows of resources

The District's statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to a future period(s). Revenue from property taxes is recognized in full in the year following the year the taxes were levied, which is the year in which use is first permitted. Accordingly, unavailable revenues from property taxes are reported in the statement of net position.

12. Net position

Net position of the District is classified in two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

13. Income taxes

As an essential government entity, the District is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

B. DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the State of Kansas; bonds of any city, county, school district, or special road district of the State of Kansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At December 31, 2016 and 2015, the District's bank deposits did not exceed federal depository insurance coverage limits.

C. CAPITAL ASSETS

	Balance January 1, 2016	Additions	Deletions	Balance December 31, 2016
Land and land improvements	\$ 40,786	\$ -	\$ -	\$ 40,786
Buildings	1,624,909	-	-	1,624,909
Major moveable equipment	<u>297,847</u>	<u>16,226</u>	<u>-</u>	<u>314,073</u>
	<u>1,963,542</u>	<u>16,226</u>	<u>-</u>	<u>1,979,768</u>
Less accumulated depreciation				
Land improvements	34,686	-	-	34,686
Buildings	1,316,545	43,703	-	1,360,248
Major moveable equipment	<u>236,191</u>	<u>12,955</u>	<u>-</u>	<u>249,146</u>
	<u>1,587,422</u>	<u>56,658</u>	<u>-</u>	<u>1,644,080</u>
Capital assets, net	<u>\$ 376,120</u>	<u>\$ (40,432)</u>	<u>\$ -</u>	<u>\$ 335,688</u>

C. CAPITAL ASSETS (CONTINUED)

	Balance January 1, 2015	Additions	Deletions	Balance December 31, 2015
Land and land improvements	\$ 40,786	\$ -	\$ -	\$ 40,786
Buildings	1,578,613	46,296	-	1,624,909
Major moveable equipment	<u>293,546</u>	<u>8,621</u>	<u>4,320</u>	<u>297,847</u>
	<u>1,912,945</u>	<u>54,917</u>	<u>4,320</u>	<u>1,963,542</u>
Less accumulated depreciation				
Land improvements	34,686	-	-	34,686
Buildings	1,272,851	43,694	-	1,316,545
Major moveable equipment	<u>226,103</u>	<u>13,096</u>	<u>3,008</u>	<u>236,191</u>
	<u>1,533,640</u>	<u>56,790</u>	<u>3,008</u>	<u>1,587,422</u>
Capital assets, net	<u>\$ 379,305</u>	<u>\$ (1,873)</u>	<u>\$ 1,312</u>	<u>\$ 376,120</u>

D. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 30, 2017, the date on which the financial statements were available to be used. Management's evaluation concluded that there are no subsequent events that are required to be recognized or disclosed in these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SPEARVILLE HOSPITAL DISTRICT

COMPARISON OF REVENUES AND EXPENSES (CASH BASIS) ACTUAL AND BUDGET

Year ended December 31, 2016

	Budgeted amounts		Actual amounts	Variance with
	Original	Final	(budgetary basis)	final budget positive (negative)
Budgetary fund balance, beginning of year	\$ 51,080	\$ 51,080	\$ 136,862	\$ 85,782
Resources (inflows):				
Taxes	216,432	216,432	220,280	3,848
Net resident service revenue	84,000	84,000	114,085	30,085
Friendship meals	30,000	30,000	46,610	16,610
Clinic revenues	10,000	10,000	6,465	(3,535)
Investment earnings	150	150	261	111
Noncapital grants	500	500	-	(500)
Miscellaneous	-	-	980	980
Amounts available for appropriation	392,162	392,162	525,543	133,381
Charges to appropriations (outflows):				
Salaries and benefits	145,562	145,562	132,327	13,235
Utilities and phone	43,000	43,000	44,686	(1,686)
Professional services	8,600	8,600	20,948	(12,348)
Advertising	2,000	2,000	1,295	705
Supplies, repairs and maintenance	80,000	80,000	57,063	22,937
Insurance	22,000	22,000	19,602	2,398
Clinic expense	41,000	41,000	50,301	(9,301)
Capital outlay	50,000	50,000	16,226	33,774
Total charges to appropriations	392,162	392,162	342,448	49,714
Budgetary fund balance, end of year	\$ -	\$ -	\$ 183,095	\$ 183,095

SPEARVILLE HOSPITAL DISTRICT

BUDGETARY COMPARISON STATEMENT BUDGET TO GAAP RECONCILIATION

Year ended December 31, 2016

Sources/inflows of resources:

Actual amounts available for appropriation from the budgetary comparison statement	\$ 525,543
Differences, budget to GAAP:	
The unencumbered cash at the beginning of the year is a budgetary resource, but is not a current year revenue for financial reporting purposes.	(136,862)
Current year property tax and other receivable amounts are not a budgetary resource, but they are revenues for financial reporting purposes.	153,514
Prior year property taxes and other receivable amounts are a budgetary resource, but they are not revenues for financial reporting purposes.	(152,146)
Current year deferred inflows of resources are a budgetary resource, but they are not revenues for financial reporting purposes.	(210,750)
Prior year deferred inflows of resources are not a budgetary resource, but they are revenues for financial reporting purposes.	207,924
	<hr/>
Total revenues and nonoperating revenues as reported on the statements of revenues, expenses and changes in net position	<u><u>\$ 387,223</u></u>

Uses/outflows of resources:

Actual amounts of charges to appropriations from the budgetary comparison statement	\$ 342,448
Differences, budget to GAAP:	
Depreciation expense is an expense for financial reporting but not for budgetary purposes.	56,658
Prepaid expenses are budgetary outflows but are deferred and reported as an expense as the benefit is utilized.	104
Capital asset purchases are budgetary outflows but are capitalized and depreciated over a specified class life for financial reporting purposes.	(16,226)
Inventory purchases are included as a budgetary outflow, but are reported as an expense when the inventory is sold for financial reporting purposes.	(816)
	<hr/>
Total operating expenses as reported on the statements of revenues, expenses and changes in net position	<u><u>\$ 382,168</u></u>